

Message Text

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ACTION ARA-14

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COME-00 EPG-02 DODE-00 EB-07 FEAE-00 FPC-01 H-01
INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04
USIA-06 OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07
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FM AMEMBASSY BRASILIA

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INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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EO 11652 NA

TAGS: ENRG BDIS BR

SUBJECT: COMPLAINTS OF DEFECTIVE ELECTRIC POWER EQUIPMENT SUPPLIED
BY US FIRMS

FOLLOWING REPORT PREPARED BY AMCONSUL SAO PAULO

1. THE REVELATION BY ELETROBRAS PRESIDENT ANTONIO CARLOS MAGALHAES TO A CONGRESSIONAL COMMITTEE ON MAY 26 THAT THE FIRST OF THE FOUR TURBINE/GENERATOR SETS SUPPLIED BY GENERAL ELECTRIC'S CANADIAN SUBSIDIARY DOMINIUM FOR THE HYDROELECTRIC PLANT AT MOXOTO IN RECIFE IS NOT OPERATING PROPERLY HAS BEEN THE SUBJECT OF SUBSTANTIAL PUBLIC DISCUSSION. IN SUBSEQUENT REMARKS TO JOURNALISTS MAGALHAES IS REPORTED TO HAVE SAID ELETROBRAS WAS CONSIDERING SUING GE FOR DAMAGES OF \$30,000 PER DAY TO COVER THE COST OF GENERATING THERMAL POWER TO REPLACE THE LOST HYDROELECTRIC PRODUCTION.

MORE OMINOUSLY, HE HINTED THAT GE'S BAD PERFORMANCE RECORD COULD JEOPARDIZE ITS ELIGIBILITY TO BID FOR THE \$650 MILLION IN EQUIPMENT
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TO BE ORDERED FOR THE ITAIPU PROJECT.

2. IN REPORTING MAGALHAES' REMARKS, THE BRAZILIAN PRESS ALSO REPORTED VARIOUS OTHER CASES INVOLVING DELAYS IN THE START-UP OF ELECTRIC POWER PLANTS DUE TO PROBLEMS WITH EQUIPMENT BY MULTINATIONALS. OTHER CASES CITED INVOLVED GE EQUIPMENT SUPPLIED TO THE HYDROELECTRIC PLANTS AT PASSO REAL (RIO GRANDE DO SUL) AND VOLTA

GRANDE (MINAS GERAIS) AND EQUIPMENT SUPPLIED BY WESTINGHOUSE TO THE THERMAL PLANT AT BONGI (RECIFE), WHICH WAS REPORTEDLY TO GO INTO OPERATION LAST DECEMBER, BUT IS STILL NOT FUNCTIONING.

3. ON MAY 31, THOMAS ROMANACH, PRESIDENT OF GENERAL ELECTRIC DO BRASIL, ISSUED A PUBLIC STATEMENT ADMITTING PROBLEMS WITH THE TURBINE AT MOXOTO, BUT COMMENTING THAT SUCH PROBLEMS WERE COMMON IN THE CASE OF MAJOR PROJECTS. HE EXPRESSED SURPRISE AT MAGALHAES' HAVING MADE A PUBLIC ISSUE OF "AN INTERNAL PROBLEM" AND SUGGESTED THAT MAGALHAES HAD BEEN POLITICALLY MOTIVATED. HE ADDED THAT HE, ROMANACH, KNEW NOTHING OF POLITICS. MAGALHAES RESPONDED THAT "THOMAS ROMANACH DOES NOT NEED TO KNOW ANYTHING ABOUT POLITICS, BUT IF HE AT LEAST KNEW A LITTLE BIT ABOUT TURBINES HE WOULD BE DOING A GREAT SERVICE TO THE NATIONAN." WITH RESPECT TO ROMANACH'S FAILURE TO COMMENT ON THE POSSIBLE LOSS OF GE'S ELIGIBILITY TO BID ON ITAIPU, MAGALHAES SAID: "IT IS GOOD THAT HE KNOWS OF MY INFLUENCE. NATURALLY, A FIRM WHICH DOES NOT LIVE UP TO ITS COMMITMENTS RUNS THE RISK OF NOT BEING CONSIDERED A GOOD FIRM AND, THEREFORE, OF NOT BEING INCLUDED AND ACCEPTED IN A COMPETITIVE BIDDING."

4. IN A JUNE 8 MEETING AT THE CONSULATE GENERAL IN SAO PAULO GE PRESIDENT ROMANACH ADMITTED THAT THE FIRST OF THE FOUR GENERATORS FOR MOXOTO WAS DELIVERED FOUR MONTHS LATE. HE SAID THAT BEASUE THE CUSTOMER WAS PRESSING FOR URGENT INSTALLATION, GE DID NOT PERFORM ALL THE USUAL CHECKS BEFORE INSTALLATION. THEN IT WAS FOUND THAT A DEFECTIVE TURBINE ROTOR, IMPORTED FROM CANADA, WAS CAUSING EXCESSIVE VIBRATION, WHICH PREVENTED THE GENERATOR FROM REACHING FULL CAPACITY. HE SAID GE HAS GIVEN ELETROBRAS A FIRM LIMITED OFFICIAL USE

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COMMITMENT TO HAVE IT OPERATING AT FULL CAPACITY BY JULY 15 AND THAT THIS WILL BE DONE, COST WHAT IT MAY. WITH RESPECT TO THE PUBLIC DUEL WITH MAGALHAES, ROMANACH SAID GE HAD DEBATED FOR TWO FULL DAYS BEFORE DECIDING TO MAKE A PUBLIC STATEMENT. HE SAID HE FRANKLY DID NOT KNOW WHETHER THAT DECISION HAD BEEN RIGHT OR NOT, BUT THAT IT HAD BEEN BASED ON THE FEELING THAT THE THREAT OF DISQUALIFICATION FROM ITAIPU WAS TOO IMPORTANT FOR GE TO REMAIN SILENT.

5. THE PRESIDENT OF WESTINGHOUSE DO BRASIL, LUIZ QUINTINO, ADMITTED TO THE PRESS THAT THERE HAD BEEN A GREAT DELAY IN THE DELIVERY OF THE EQUIPMENT FOR THE BONGI PLANT AND SAID THAT WESTINGHOUSE WAS BRINGING A HIGH LEVEL TECHNICAL TEAM FROM THE US TO ENSURE THAT THE EQUIPMENT BEGINS OPERATING "WITHIN THE SHORTEST POSSIBLE PERIOD."

6. COMMENT: ROMANACH FEELS THAT ELETROBRAS IS TAKING ADVANTAGE OF THE FACT THAT THE NEGOTIATIONS FOR THE ITAIPU CONTRACT WILL TAKE PLACE LATER THIS YEAR TO PUT PRESSURE ON GE TO TAKE EXTRA-

ORDINARY MEASURES TO SOLVE PROBLEMS WHICH, ACCORDING TO ROMANACH, ARE ALMOST ROUTINE IN THE STARTING UP OF MAJOR POWER PLANTS. THE FINANCIAL DAILY GAZETA MERCANTIL COMMENTED THAT ELETROBRAS WAS ONLY INTERESTED IN MAKING THE RECORD CLEAR THAT IT WOULD NOT BE RESPONSIBLE IF THERE SOULD BE ANY POWER SHORTFALL IN THE NORTH-EAST REGION. SPECULATION BY OTHER BRAZILIAN JOURNALISTS THAT THE ELETROBRAS ANNOUNCEMENT WAS DELIBERATELY TIMED TO COME JUST BEFORE MRS. CARTER'S VISIT TO BRAZIL AND INTENDED TO ALLEVIATE US PRESSURE AGAINST BRAZIL'S NUCLEAR POLICY WAS CATEGORICALLY DENIED BY ENERGY MINISTER SHIGEAKI UEKI, WHO SAID THAT THE MATTER HAD "NOT ARRIVED AT THE GOVERNMENT LEVEL" AND WAS, AT PRESENT, A MATTER BETWEEN COMPANIES.

WITH RESPECT TO THE QUESTION OF WHETHER THE INCIDENT WOULD AFFECT GE'S ELIGIBILITY FOR ITAIPU, UEKI SAID "THIS IS FOR THE ITAIPU TECHNICIANS TO DECIDE."

7. IN VIEW OF WHAT WE KNOW OF THE CHARACTER AND POLITICAL AMBITIONS LIMITED OFFICIAL USE

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OF MAGALHAES, IT SEEMS PROBABLE THAT HIS REASONS FOR MAKING A PUBLIC ISSUE OF GE'S PROBLEMS WERE OTHER THAN HIS CONCERN FOR CONTRACT COMPLIANCE. SUCCESS OF ELECTROBRAS'PROGRAMS IS ESSENTIAL TO HIS POLITICAL ASPIRATIONS, BUT IS SEEN BY HIM AS THREATENED BY THE GOB'S LIMITATIONS ON HIS BUDGET. HIS PUBLIC THREAT TO SUE GE FOR \$30,000 A DAY DAMAGES COULD THEREFORE BE A WAY OF DRAMATIZING HIS NEED FOR ADDITIONAL FUNDS. END COMMENT. CRIMMINS

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